FISERV INC
Form 10-Q
October 28, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended September 30, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from to
Commission File Number 0-14948

FISERV, INC.
(Exact Name of Registrant as Specified in Its Charter)

WISCONSIN	39-1506125
(State or Other Jurisdiction of Incorporation or Organization)	(I. R. S. Employer Identification No.)
255 FISERV DRIVE, BROOKFIELD, WI	53045
(Address of Principal Executive Offices)	(Zip Code)

(262) 879-5000
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of October 22, 2015, there were 228,538,696 shares of common stock, $.01 par value, of the registrant outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
Fiserv, Inc.
Consolidated Statements of Income
(In millions, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Processing and services	$1,125	$1,063	$3,301	$3,141
Product	188	200	585	609
Total revenue	1,313	1,263	3,886	3,750
Expenses:				
Cost of processing and services	541	537	1,625	1,610
Cost of product	172	168	521	519
Selling, general and administrative	258	243	758	728
Total expenses	971	948	2,904	2,857
Operating income	342	315	982	893
Interest expense	(41)	(41)	(131)	(123)
Interest and investment income	—	—	1	1
Loss on early debt extinguishment	—	—	(85)	—
Income from continuing operations before income taxes and income from investment in unconsolidated affiliate	301	274	767	771
Income tax provision	(117)	(120)	(279)	(287)
Income from investment in unconsolidated affiliate	34	85	35	89
Income from continuing operations	218	239	523	573
Income (loss) from discontinued operations, net of income taxes	—	—	—	—
Net income	$218	$239	$523	$573
Net income per share – basic:				
Continuing operations	$0.94	$0.96	$2.22	$2.29
Discontinued operations	—	—	—	—
Total	$0.94	$0.96	$2.22	$2.29
Net income per share – diluted:				
Continuing operations	$0.92	$0.95	$2.18	$2.25
Discontinued operations	—	—	—	—
Total	$0.92	$0.95	$2.18	$2.25
Shares used in computing net income per share:				
Basic	232.9	247.6	236.0	250.5
Diluted	237.0	251.8	240.1	254.6

See accompanying notes to consolidated financial statements.

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Fiserv, Inc.
Consolidated Statements of Comprehensive Income
(In millions)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$218	$239	$523	$573
Other comprehensive income (loss):				
Fair market value adjustment on cash flow hedges, net of income tax provision (benefit) of $(1) million, $(1) million, $(1) million and $1 million	(1)	(1)	(1)	1
Reclassification adjustment for net realized losses on cash flow hedges included in interest expense, net of income tax provision of $1 million, $1 million, $6 million and $4 million	2	2	9	6
Foreign currency translation	(10)	(9)	(20)	(4)
Total other comprehensive income (loss)	(9)	(8)	(12)	3
Comprehensive income	$209	$231	$511	$576

See accompanying notes to consolidated financial statements.

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Fiserv, Inc.
Consolidated Balance Sheets
(In millions)
(Unaudited)

	September 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	$309	$294
Trade accounts receivable, net	783	798
Deferred income taxes	37	42
Prepaid expenses and other current assets	402	352
Total current assets	1,531	1,486
Property and equipment, net	397	317
Intangible assets, net	1,906	2,003
Goodwill	5,201	5,209
Other long-term assets	352	322
Total assets	$9,387	$9,337
Liabilities and Shareholders' Equity		
Accounts payable and accrued expenses	$1,006	$905
Current maturities of long-term debt	5	92
Deferred revenue	400	489
Total current liabilities	1,411	1,486
Long-term debt	4,230	3,711
Deferred income taxes	720	716
Other long-term liabilities	157	129
Total liabilities	6,518	6,042
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value: 25.0 million shares authorized; none issued	—	—
Common stock, $0.01 par value: 900.0 million shares authorized; 395.7 million shares issued	4	4
Additional paid-in capital	940	897
Accumulated other comprehensive loss	(75)	(63)
Retained earnings	7,875	7,352
Treasury stock, at cost, 166.2 million and 155.4 million shares	(5,875)	(4,895)
Total shareholders' equity	2,869	3,295
Total liabilities and shareholders' equity	$9,387	$9,337

See accompanying notes to consolidated financial statements.

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Fiserv, Inc.
Consolidated Statements of Cash Flows
(In millions)
(Unaudited)

	Nine Months Ended September 30, 2015	2014
Cash flows from operating activities:		
Net income	$523	$573
Adjustment for discontinued operations	—	—
Adjustments to reconcile net income to net cash provided by operating activities from continuing operations:		
Depreciation and other amortization	163	147
Amortization of acquisition-related intangible assets	149	153
Share-based compensation	51	37
Excess tax benefits from share-based awards	(34)	(15)
Deferred income taxes	(2)	(11)
Income from investment in unconsolidated affiliate	(35)	(89)
Loss on early debt extinguishment	85	—
Dividends from unconsolidated affiliate	36	108
Other operating activities	7	—
Changes in assets and liabilities:		
Trade accounts receivable	16	8
Prepaid expenses and other assets	(64)	(37)
Accounts payable and other liabilities	135	147
Deferred revenue	(75)	(61)
Net cash provided by operating activities from continuing operations	955	960
Cash flows from investing activities:		
Capital expenditures, including capitalization of software costs	(292)	(225)
Net proceeds from sale of investments	1	7
Other investing activities	(5)	(1)
Net cash used in investing activities from continuing operations	(296)	(219)
Cash flows from financing activities:		
Debt proceeds	2,392	544
Debt repayments, including redemption and other costs	(2,058)	(544)
Proceeds from issuance of treasury stock	60	39
Purchases of treasury stock, including employee shares withheld for tax obligations	(1,066)	(785)
Excess tax benefits from share-based awards	34	15
Other financing activities	(6)	—
Net cash used in financing activities from continuing operations	(644)	(731)
Net change in cash and cash equivalents from continuing operations	15	10
Net cash flows to discontinued operations	—	(1)
Beginning balance	294	400
Ending balance	$309	$409

See accompanying notes to consolidated financial statements.

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Fiserv, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The consolidated financial statements for the three-month and nine-month periods ended September 30, 2015 and 2014 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial statements have been included. Such adjustments consisted of normal recurring items. Interim results are not necessarily indicative of results for a full year. The consolidated financial statements and accompanying notes are presented as permitted by Form 10-Q and do not contain certain information included in the annual consolidated financial statements and accompanying notes of Fiserv, Inc. (the “Company”). These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

Principles of Consolidation

The consolidated financial statements include the accounts of Fiserv, Inc. and all 100% owned subsidiaries. Investments in less than 50% owned affiliates in which the Company has significant influence but not control are accounted for using the equity method of accounting. All intercompany transactions and balances have been eliminated in consolidation.

2. Recent Accounting Pronouncements

In September 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"), which eliminates the requirement to restate prior period financial statements for measurement period adjustments related to a business combination. The standard requires that the cumulative impact of a measurement period adjustment be recognized in the reporting period in which the adjustment is identified. ASU 2015-16 also requires companies to disclose the portion of the adjustment recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date, either separately in the income statement or in the notes. For public entities, ASU 2015-16 will be effective prospectively for annual and interim periods after December 15, 2015, with early adoption permitted. The Company does not expect the adoption of ASU 2015-16 to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). ASU 2015-03 requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability rather than as an asset. The standard does not affect the recognition and measurement of debt issuance costs; therefore, the amortization of such costs will continue to be reported as interest expense. ASU 2015-03 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permissible for financial statements that have not been previously issued. The new guidance is to be applied on a retrospective basis to all prior periods. The Company does not expect the adoption of ASU 2015-03 to have a material impact on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (“ASU 2015-02”), which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. ASU 2015-02 clarifies how to determine whether equity holders as a group have power to direct the activities that most significantly affect the legal entity’s economic performance and could affect whether it is a variable interest entity. ASU 2015-02 will be effective for annual periods beginning after December 15, 2015; early adoption is allowed, including in any interim period. The Company does not expect the adoption of ASU 2015-02 to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), to clarify the principles of recognizing revenue and to create common revenue recognition guidance between U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This model involves a five-step process for achieving that core principle, along with comprehensive disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In July 2015, the FASB deferred the effective date of the new revenue standard for one year and will permit

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early adoption as of the original effective date in ASU 2014-09. For public entities, the standard will be effective for annual and interim periods beginning after December 15, 2017. Entities have the option of using either a full retrospective or a modified approach to adopt this new guidance. The Company is currently assessing the impact that the adoption of ASU 2014-09 will have on its consolidated financial statements.

3. Fair Value Measurements

The Company applies fair value accounting for all assets and liabilities that are recognized or disclosed at fair value in its consolidated financial statements on a recurring basis. Fair value represents the amount that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability.

The fair values of cash equivalents, trade accounts receivable, settlement assets and obligations, and accounts payable approximate their respective carrying values due to the short period of time to maturity. The estimated fair value of total debt was $4.3 billion at September 30, 2015 and $3.9 billion at December 31, 2014 and was estimated using quoted prices in inactive markets (level 2 of the fair value hierarchy) or using discounted cash flows based on the Company's current incremental borrowing rates (level 3 of the fair value hierarchy).

4. Investment in Unconsolidated Affiliate

The Company owns a 49% interest in StoneRiver Group, L.P. ("StoneRiver"), which is accounted for as an equity method investment, and reports its share of StoneRiver's net income as income from investment in unconsolidated affiliate. The Company's investment in StoneRiver was $20 million and $21 million at September 30, 2015 and December 31, 2014, respectively, and was reported within other long-term assets in the consolidated balance sheets. To the extent that the Company's cost basis is different than the basis reflected at the unconsolidated affiliate level, the basis difference is generally amortized over the lives of the related assets and included in the Company's share of equity in earnings of the unconsolidated affiliate.

During each of the three months ended September 30, 2015 and 2014, StoneRiver recognized a gain on the sale of a subsidiary business. The Company's share of the gains and related expenses on these transactions of $32 million in 2015 and $85 million in 2014 was recorded within income from investment in unconsolidated affiliate, with the related tax expenses of $14 million and $32 million, respectively, recorded through the income tax provision, in the consolidated statements of income. The Company received cash dividends from StoneRiver, funded from capital transactions, of $36 million and $108 million, during the nine months ended September 30, 2015 and 2014, respectively, which were recorded as reductions in the Company's investment in StoneRiver. These dividends, in their entirety, represented returns on the Company's investment and were reported in cash flows from operating activities.

5. Share-Based Compensation

The Company recognized $15 million and $51 million of share-based compensation expense during the three and nine months ended September 30, 2015, respectively, and $10 million and $37 million of share-based compensation expense during the three and nine months ended September 30, 2014, respectively. The Company's annual grant of share-based awards generally occurs in the first quarter. During the nine months ended September 30, 2015, the Company granted 1.1 million stock options and 0.3 million restricted stock units at weighted-average estimated fair values of $25.50 and $79.20, respectively. During the nine months ended September 30, 2014, the Company granted 1.3 million stock options and 0.5 million restricted stock units at weighted-average estimated fair values of $18.80 and $57.25, respectively. During the nine months ended September 30, 2015 and 2014, stock options to purchase 1.9 million and 1.1 million shares, respectively, were exercised.

6. Shares Used in Computing Net Income Per Share

The computation of shares used in calculating basic and diluted net income per common share is as follows:

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(In millions)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Weighted-average common shares outstanding used for the calculation of net income per share – basic	232.9	247.6	236.0	250.5
Common stock equivalents	4.1	4.2	4.1	4.1
Weighted-average common shares outstanding used for the calculation of net income per share – diluted	237.0	251.8	240.1	254.6

For the three months ended September 30, 2015 and 2014, stock options for 1.0 million and 1.3 million shares, respectively, were excluded from the calculation of diluted weighted-average outstanding shares because their impact was anti-dilutive. For the nine months ended September 30, 2015 and 2014, stock options for 0.9 million and 1.2 million shares, respectively, were excluded from the calculation of diluted weighted-average outstanding shares because their impact was anti-dilutive.

7. Intangible Assets

Intangible assets consisted of the following:

(In millions) September 30, 2015	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer related intangible assets	$2,153	$889	$1,264
Acquired software and technology	493	405	88
Trade names	120	51	69
Capitalized software development costs	567	198	369
Purchased software	272	156	116
Total	$3,605	$1,699	$1,906

(In millions) December 31, 2014	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer related intangible assets	$2,155	$797	$1,358
Acquired software and technology	493	356	137
Trade names	120	46	74
Capitalized software development costs	574	240	334
Purchased software	234	134	100
Total	$3,576	$1,573	$2,003

The Company estimates that annual amortization expense with respect to acquired intangible assets, which include customer related intangible assets, acquired software and technology, and trade names, will be approximately $200 million in 2015, $150 million in 2016, $140 million in each of 2017 and 2018, and $130 million in 2019. Annual amortization expense in 2015 with respect to capitalized and purchased software is estimated to approximate $115 million.

8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

(In millions)	September 30, 2015	December 31, 2014
Trade accounts payable	$77	$61
Client deposits	299	261
Settlement obligations	183	176
Accrued compensation and benefits	158	192
Other accrued expenses	289	215
Total	$1,006	$905

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9. Long-Term Debt

In April 2015, the Company entered into an amended and restated revolving credit agreement that restated its existing $2.0 billion revolving credit agreement with a syndicate of banks and extended its maturity from October 2018 to April 2020. The amended and restated credit agreement also provided that the Company's subsidiaries that were guaranteeing its obligations under the revolving credit facility were released from their respective guarantees. Borrowings under the amended revolving credit facility continue to bear interest at a variable rate based on LIBOR or on a base rate, plus a specified margin based on the Company's long-term debt rating in effect from time to time. There are no significant commitment fees and no compensating balance requirements. The amended revolving credit facility contains various restrictions and covenants that are substantially similar to those under the Company's previously existing credit agreement. In April 2015, the Company also entered into an amendment to its term loan facility to conform certain of its terms to those in the amended and restated credit agreement, including providing that its subsidiaries that were guaranteeing its obligations under the term loan facility were released from their respective guarantees. In addition, in April 2015, the Company provided notice to the trustee under the indenture and supplemental indentures governing its outstanding senior notes that the subsidiary guarantors of the outstanding senior notes were automatically released from all of their obligations under the supplemental indentures and their respective guarantees.

In May 2015, the Company completed an offering of $1.75 billion of senior notes comprised of $850 million aggregate principal amount of 2.7% senior notes due in June 2020 and $900 million aggregate principal amount of 3.85% senior notes due in June 2025. The notes pay interest semi-annually on June 1 and December 1, commencing on December 1, 2015. The interest rate applicable to these notes is subject to an increase of up to two percent in the event that the Company's credit rating is downgraded below investment grade. The indentures governing the senior notes contain covenants that, among other matters, limit (i) the Company's ability to consolidate or merge into, or convey, transfer or lease all or substantially all of its properties and assets to, another person, (ii) the Company's and certain of its subsidiaries' ability to create or assume liens, and (iii) the Company's and certain of its subsidiaries' ability to engage in sale and leaseback transactions. The Company used the net proceeds from this offering to redeem its $600 million aggregate principal amount of 3.125% senior notes due in June 2016 and $500 million aggregate principal amount of 6.8% senior notes due in November 2017. The Company recorded a pre-tax loss on early debt extinguishment of $85 million related to make-whole payments and other costs associated with this redemption. In addition, the Company paid scheduled December 2015 and December 2016 principal payments on the term loan totaling $180 million and repaid outstanding borrowings under the amended and restated revolving credit facility.

At September 30, 2015 and December 31, 2014, the Company's $300 million aggregate principal amount of 3.125% senior notes due in October 2015 were classified in the consolidated balance sheets as long-term as the Company had the intent to refinance this debt on a long-term basis and the ability to do so under its amended and restated revolving credit facility. In October 2015, the Company used available borrowings under the amended and restated revolving credit facility to repay the $300 million aggregate principal amount of 3.125% senior notes.

10. Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss by component, net of income taxes, consisted of the following:

(In millions)	Cash Flow Hedges	Foreign Currency Translation	Other	Total
Balance at December 31, 2014	$(41)	$(20)	$(2)	$(63)
Other comprehensive loss before reclassifications	(1)	(20)	—	(21)
Amounts reclassified from accumulated other comprehensive loss	9	—	—	9
Net current-period other comprehensive (loss) income	8	(20)	—	(12)
Balance at September 30, 2015	$(33)	$(40)	$(2)	$(75)

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(In millions)	Cash Flow Hedges	Foreign Currency Translation	Other	Total
Balance at December 31, 2013	$(49)	$(9)	$(2)	$(60)
Other comprehensive (loss) income before reclassifications	1	(4)	—	(3)
Amounts reclassified from accumulated other comprehensive loss	6	—	—	6
Net current-period other comprehensive income (loss)	7	(4)	—	3
Balance at September 30, 2014	$(42)	$(13)	$(2)	$(57)

Based on the amounts recorded in accumulated other comprehensive loss at September 30, 2015, the Company estimates that it will recognize approximately $12 million in interest expense during the next twelve months related to settled interest rate hedge contracts.

The Company has entered into foreign currency forward exchange contracts, which have been designated as cash flow hedges, to hedge foreign currency exposure to the Indian Rupee. As of September 30, 2015 and December 31, 2014, the notional amount of these derivatives was approximately $86 million and $73 million, respectively, and the fair value totaling approximately $1 million was recorded within current accrued expenses in the consolidated balance sheet at September 30, 2015 and December 31, 2014, respectively.

11. Cash Flow Information

Supplemental cash flow information was as follows:

	Nine Months Ended September 30,	
(In millions)	2015	2014
Interest paid	$78	$77
Income taxes paid from continuing operations	222	231
Treasury stock purchases settled after the balance sheet date	38	13

12. Business Segment Information

The Company’s operations are comprised of the Payments and Industry Products (“Payments”) segment and the Financial Institution Services (“Financial”) segment. The Payments segment primarily provides debit and credit card processing and services, electronic bill payment and presentment services, internet and mobile banking software and services, person-to-person payment services, and other electronic payments software and services. The businesses in this segment also provide card and print personalization services, investment acco